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ECONOMIC UPDATE

July 16, 2021

Economic Issue in Focus – Expanded CTC Is Expected to Cut Child Poverty Nearly in Half

The first round of monthly payments from the expanded Child Tax Credit (CTC) were distributed yesterday, July 15. These payments are expected to cut child poverty nearly in half as well as help American families with their monthly expenses. The American Rescue Plan (ARP) expanded the CTC so that it is now fully refundable and previously ineligible low-income families will receive the full credit. The ARP also dramatically increased the value of the CTC, from $2,000 per child to up to $3,600 per child under six and $3,000 per child six and older.

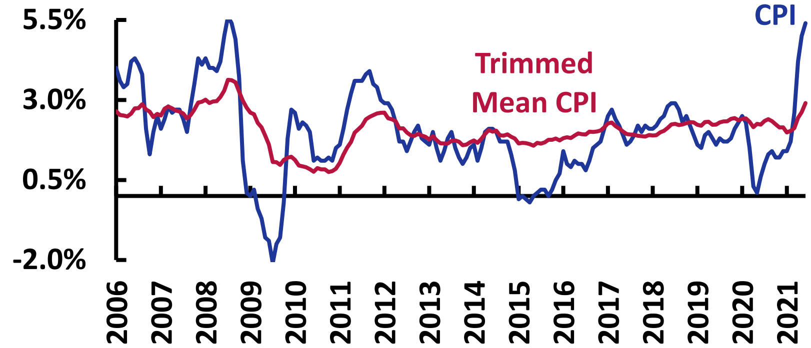
The expanded CTC will now be distributed partly via monthly payments, which will help families with their monthly budgets and meet their financial needs in real time. That could mean as much as an extra $300 every month for every child to make sure families have the money they need to invest in their children. Research has found that increasing families' incomes has positive effects on children's development, including boosting test scores, increasing school completion rates, improving health outcomes, increasing future earnings and reducing the likelihood of incarceration. Taken together, the expanded CTC is an investment that will pay economy-wide dividends in the future.

Key Economic Indicators to Track

- *July 13:* Supply chain backlogs and increasing consumer demand in sectors heavily impacted by COVID-19 led to a 5.4% increase in the Consumer Price Index (CPI) in June. Used cars and trucks accounted for almost half of the increase, but wholesale market prices for used vehicles fell in June, which suggests that consumer prices for used cars could soon fall as demand stabilizes. Federal Reserve Chair Powell testified before the House and Senate that long-term inflation expectations "remain well anchored at 2 percent" and that the Fed would use its tools to adjust the stance of monetary policy if longer-term inflation expectations moved beyond levels consistent with the Federal Open Market Committee's goal. Market-based measures of inflation expectations, including 10-year Treasury breakeven rates, also remain within normal ranges, which suggests that investors share the Fed's assessment that inflation increases are temporary and a result of base effects and supply constraints. "Trimmed mean CPI", a measure that excludes the most volatile sectors, also remains in the normal range, providing further evidence that recent increases in CPI are temporary responses to economic recovery and not representative of overall inflationary pressures.

Trimmed Mean CPI Inflation Rates Are Lower Than Headline Inflation Rates

Consumer Price Index (CPI) and Trimmed Mean CPI inflation rates

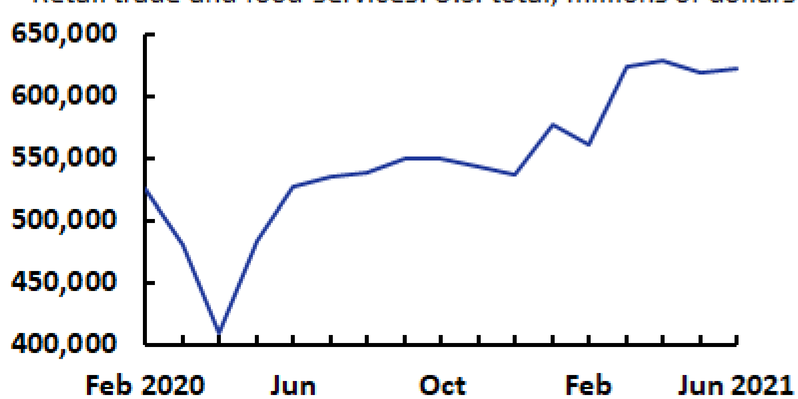


Source: Bureau of Labor Statistics and Federal Reserve Bank of Cleveland
Note: Data are seasonally adjusted

- *July 15*: Data released by the Department of Labor showed that the labor market continues to strengthen, as new claims for unemployment benefits fell to a post-pandemic low of 360,000, down from 386,000 last week, and well below the 1.5 million claims that were filed during the same week last year. New research from JPMorgan finds "scant evidence" of an increase in people looking for work in states that prematurely cut unemployment benefits, while millions of families will have a harder time covering their living expenses while they search for a job that matches their skills and needs.
- *July 16:* State-level employment data released by the Bureau of Labor Statistics showed that the U.S. is experiencing a strong economic recovery, with 850,000 jobs added across the U.S. in June. Nonfarm payrolls increased in 25 states last month and all 50 states have experienced net new job growth this year.
- *July 16 continued*: Retail sales rose by 0.6% in June and are 18% above pre-pandemic levels, demonstrating that the strong economic recovery continues as Americans have resumed activities, such as dining out, thanks to the successful rollout of vaccines.

Retail Sales Are 18% Above Pre-pandemic Levels

Retail trade and food services: U.S. total, millions of dollars



Source: Census Bureau
Note: Seasonally adjusted sales, monthly

JEC Spotlight – Unemployment Benefits Have Almost No Bearing on Returning to Work

In the latest issue brief on Unemployment Insurance (UI), the evidence that the labor market is experiencing a period of rising wages and more job choices for workers as Americans continue to recover from the economic effects of the COVID-19 pandemic. Research indicates that the scale of the impact of government programs like UI on the timing of workers' return to work is small to negligible. Real-time evidence and broad academic consensus suggest that the labor market is returning to its pre-pandemic tightness, countering claims by proponents of a "labor shortage." Before the pandemic, wages were rising and workers had more choices for jobs that fit their skills and needs as the labor market tightened. Looking at the economy now, we are beginning to see signs of broad-based growth and a return to these conditions, with wages rising the most among the lowest-paid one-quarter of employees and workers—including those with jobs—choosing to move, change sectors and ask for better benefits.

Selected JEC Resources

- *A 21st Century UI System Is a Requirement for Economic Resilience in Future Downturns*
- *Investing in the IRS to Close the Tax Gap*

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Contact: nita_somasundaram@jec.senate.gov